



# LFC Newsletter

A publication of the

**Legislative Finance Committee**

Senator John Arthur Smith, Chairman

Representative Luciano "Lucky" Varela, Vice Chairman

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## *From the Chairman* **Surprise!**

If the need for precise analysis of the cost of tax credits was not obvious before now, consider this: The high-wage jobs tax credit will cost the state three times as much as it did last year and the cost of the manufacturing tax credit, passed this year, could be twice the original estimate.

The state will "spend" \$50 million this year through lost tax revenue because of the high-wage jobs tax credit – a tax break for businesses that is supposed to encourage the creation of new jobs. It could be argued the cost is worth the jobs created but imprecise wording in the law means that businesses might be taking credit for existing jobs. The Taxation and Revenue Department estimates as little as 20 percent of the tax credit claims were for new jobs in the current period.

In the case of the manufacturing tax credit, which gives companies a break on their gross receipts taxes for products consumed in manufacturing, the department warns the cost could be closer to \$80 million than the original \$40 million a year estimate. The problem again is loose definitions. Of particular concern is how to define the amount of electricity "consumed." The new law was an attempt to address the pyramiding of the tax in the old law – an arguably unfair consequence – but the cost of the solution might be an unfair consequence for the state.

And, of course, there's the poster child of well-meaning but bungled tax credits: the film production tax credit. That credit, before being revamped, cost the state much more than the revenue it generated.

It's enough to make a seasoned lawmaker long for the days when the mantra of tax policy in New Mexico was keep the base broad and the rates low.

The LFC has been calling for better reporting on "tax expenditures" for several years and, obviously, the need is still there. The secretaries of both the taxation and financial administration departments will testify on July 11 about tax expenditures and the use of tax reform to enhance economic growth. We look forward to hearing what they have to say.

**Senator John Arthur Smith**  
Chairman

## **Early Education Pays Off, Retention Results Mixed**

New Mexico's investment in pre-kindergarten and other early childhood education is paying off with measurable differences in third-grade reading proficiency, an LFC evaluation shows.

However, some groups still lag behind the average, particularly those learning English and those living in poverty.

In addition, retaining students in third grade, an option debated during the legislative session, appears to produce mixed results, with most students improving but not enough to move up to grade level and some students getting worse, according to the LFC evaluation.

The LFC evaluation staff is scheduled to present its findings to the committee at 8:30 a.m. on July 12 at the Santa Ana Star Center in Rio Rancho.

The report finds about half of third graders are proficient on the state's standardized test.

While proficiency rates differ among ethnic groups, the differences are more pronounced between groups with different English-language skills and incomes, even within the same ethnic group.

For example, 14 percent of Native Americans who qualify as low-income and English-language learners were proficient readers, but the percentage jumps to 64 for Native Americans

without those disadvantages.

Those disadvantages can be overcome, however, if students attend state pre-kindergarten programs or the extended school-year program called K-3 Plus. Prekindergarten students perform as well as their peers by third grade, even though those programs serve high percentages of children who are English-language learners or living in poverty.

The evaluators say prekindergarten and K-3 Plus are cost-effective alternatives to retaining students, which has mixed results. While current law requires academic improvement plans for retained students, only 12 percent of the lowest-performing third-graders retained in 2010 became proficient in their second year of third grade, and five percent lost points.

The cost of additional school year for third graders is equal to a year of pre-kindergarten and four years of K-3 Plus.

The Legislature in January rejected a plan to make retention mandatory for nonproficient third-graders.

The study found performance is lowest for chronically absent children. About 45 percent of students who attended school less than 90 percent of the time scored as proficient, compared with 56 percent of those who attended school 95 percent or more of the school year.

## **Fed Dollars Could Expand Child Programs**

New Mexico has numerous programs to address child health and development but could do more to make those programs more effective and draw in additional federal dollars to support state efforts, an LFC report says.

During a June committee hearing on child health between birth and age 3, LFC staff noted that numerous studies show healthy development during those years is linked to school success, success as adults and long, healthy lives.

New Mexico has a variety of programs aimed at early childhood health and development, including prenatal care, infant care, food and nutrition, intervention, and childcare programs.

A key component of New Mexico's early childhood efforts are the home-visiting programs, intervention programs for high-risk families.

However, staff concluded, the program is not reaching all the families that could benefit, partly because of limits on Medicaid spending for the program run by the Human Services Department.

The Children, Youth and Families Department also runs a home-visiting program but it is limited by the availability of state dollars.

In 2010, Medicaid covered the costs of about 70 percent of the births in New Mexico, indicating 19,000 babies were born into needy families that year. But the home-visiting programs serve about 600 infants a year.

The state could expand the program with federal Medicaid dollars that become available for preventive services in 2013 if it can demonstrate home-visiting services prevent future health problems.

# New Mexico Children At Top of Risk Measures

An LFC staff survey of reports on child health in New Mexico shows the state's children rank among the bottom states in key indicators of well-being, including poverty, teen births, child deaths, and single-parent households.

New Mexico Voices for Children, which compiles the annual *NM Kids Count* report, put New Mexico at 43rd in the nation in 2010.

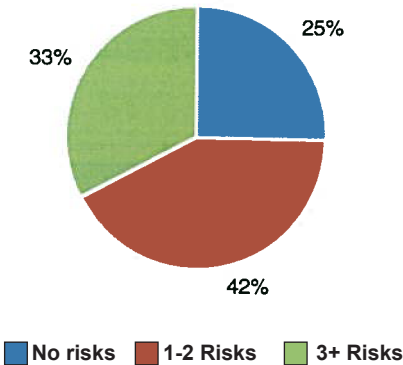
One in four New Mexico children live in poverty, compared with the national figure of less than one in five, and half of those live in "extreme poverty," defined as a family with an income less than 50 percent of the federal poverty level, or \$12,000 a year for a family of four.

Teen pregnancy, an indicator of birth health and its impact on childhood development, is at 33 percent in New Mexico, compared with a national figure of 20 percent.

New Mexico also exceeds national average on young children without health insurance, pregnant women who do not receive prenatal care, infant mortality, and mothers with less than a high school education.

New Mexico is about average on another indicator of infant health – low birth weight – but 11 New Mexico counties are significantly above the national average of about 8 percent with rates of 10 percent or higher. More than a quarter of the babies born in Harding County have low birth weights.

**NM Risk Factors for Young Children**  
National Center for Children in Poverty, 2009



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## On the Table

### Settlement Means \$9 million for NM

New Mexico is expected to get \$8.9 million as part of the 50-state AIG settlement. An investigation found AIG under-reported more than \$20 million it collected over 15 years. Most of the money will go to the assigned risk pool, used to cover employers who are unable to get commercial workers' compensation insurance.

### Women Prison Population on the Rise

More women serving time for violent crimes and drug trafficking, as well as serving parole time in prison, is contributing to an upward trend in the women's prison population, the Sentencing Commission reports. The commission says the male prison population has been mostly stable since 2007, partly because a nonviolent inmate can now earn time off his sentence for good behavior during the first six months of his sentence.

### Road Money Projections Down \$1 Million

The combined FY12 forecast for road funds is down \$1 million from January projections, according to an update presented to the State Transportation Commission. Three of the four key state road fund revenues are projected to come in slightly below forecast – gasoline taxes down 1.7 percent, special fuels taxes down 1.6 percent, and the commercial trucking weight-distance tax down 1.3 percent.

### Health Facilities Project Deficit

The Health Department is projecting its health facilities will be \$1.5 million short at the end of the fiscal year. The department is meeting with Medicaid managed-care providers to find a way to collect money due to hospitals by these third-party payers.

### Video Disproves Cartel Corruption Claims

Multiple viewings of video of the 2010 All-American Futurity horserace in Ruidoso show no evidence the starting gates were rigged to favor a single horse, the racetrack manager reports. The *El Paso Times* reported FBI informants claimed the co-leader of the Zetas, a Mexican drug cartel, paid off workers to rig the gates so he could win the \$1 million purse.

### New Mexico Magazine Makes Money

The Tourism Department's *New Mexico Magazine*, which has lost money for many years and lost \$600,000 last year, is going to end this fiscal year in the black. The magazine increased revenue while cutting contract and printing costs.

### Retiree Group Fails To Reach Agreement

A stakeholders advisory group for the Educational Retirement Board will not make a recommendation to the board on options to help the fund regain solvency because the group failed to reach a consensus. The group was looking at employers' contributions and benefits.

### Transitions

Ellen Roth is the new executive director of the Commission for the Deaf and Hard of Hearing. She previously worked for video relay services. James Sanchez, a Belen attorney, has been appointed to vacant judgeship in the district court for Cibola, Valencia and Sandoval counties.